

## GOVERNANCE AND INSTITUTIONS

### **What is ASIA?**

Asia is an expansive and heterogeneous region— physically, socially, politically and economically. It includes some of the world's largest, most competitive and most sophisticated economies, such as Japan, Hong Kong, China, Singapore and Republic of Korea. People's Republic of China (PRC), India, Indonesia, and Vietnam are fast emerging as important global players. They co-exist with numerous small, under-developed and, often, fragile economies such as Afghanistan, Nepal and many Pacific Islands. There are vast differences and—until recently— only limited physical and economic links among the three sub-regions: East Asia and the Pacific, South Asia and Central Asia. Unlike the atmosphere of shared ancestry in Europe, Asian nations are not linked by a common history, culture, religion or heritage. Asians speak dozens of languages without a common root, such as Greek or Latin, the basis of most European languages. Often, individual Asian countries have stronger economic and social ties with nations outside Asia than with those within the region.

### **Analytic framework**

It is essential for all Asian countries— across the three groups— to focus on improving governance and transforming institutions in order to meet the challenges of the coming decades. The recent deterioration in the quality and credibility of national political and economic institutions in a large number of Asian countries is a key concern and a reason why Asia's rise should not be seen as preordained. Transparency, predictability and accountability are key elements to establish long-term domestic legitimacy or authorities. Asia policy makers cannot rely on "international best practice" but rather have to look for the "best fit" for their specific country circumstances. Makings of the Asian Century

The Asian Century scenario essentially extends Asia's past success into the future, putting it on the cusp of a truly historic transformation. In this scenario, Asia's GDP (market exchange rates) would increase from \$16 trillion in 2010 to \$148 trillion in 2050, or half of global GDP, similar to its share of the global population. With a per capita GDP of \$38,600 (PPP), Asia in 2050 would have incomes similar to Europe today. It would have no poor countries (with average per capita GDP of less than \$1,000), compared with seven today. All this assumes that Asian economies can maintain their momentum for another 40 years and adapt to shifting global economic and technological environment by continually recreating their comparative advantage.

### **Managing massive urbanization**

Between now and 2050, Asia will be transformed as its urban population nearly doubles from 1.6 billion to 3.1 billion, truly staggering and truly historic (Table 1). Asia's cities, which already account for more than 80 percent of economic output, will be the centers of higher education, innovation and technological development. Urban buildings and transport would account for the bulk of energy consumption and carbon emissions. The quality and efficiency of urban areas will thus increasingly determine Asia's long-term competitiveness and social and political stability. Asia must take advantage of being early on its urbanization growth curve, to manage its coming rapid urbanization by promoting compact, energy-efficient, safe and livable cities—more reliant on mass transit than on cars. It must also manage some significant risks, particularly those associated with inequality, slums and a breakdown of social cohesion. Better financing and management of cities will require long-term planning and visionary leadership, further decentralization of responsibility to local governments, more local accountability and greater market financing of urban capital investments.

### **Governance and institutions**

All countries must improve governance and continually transform their institutions. The recent deterioration in the quality and credibility of national political and economic institutions (illustrated by rising corruption) is a serious concern and likely to become a binding constraint to growth. High quality institutions will help the fast growing countries avoid the Middle Income Trap, and the slower growing countries establish the basic institutions for moving toward sustained economic growth. Managing the common challenges—be they rapid urbanization, building a fundamentally sound financial sector, or fostering entrepreneurship and innovation—requires effective governance, both at the central and local level. Asia must modernize governance and retool its institutions with an emphasis on transparency, accountability and enforceability.

### **The governance challenge in Asia**

There is no shortage of published indicators that track the governance and institutional evolution of countries over time. The 2009 Worldwide Governance Indicators published by the World Bank Institute are formed by a composite of six core dimensions: voice (of people) and accountability (of government), political stability/no violence, government effectiveness, regulatory quality, rule of law, and control of corruption. A simple average of the scores of Asian economies does not indicate any major changes between 1998 and 2009.

### **The key actors of institutional change**

Asian governments will have to be the key actors to realize the Asian Century, but they cannot do it alone. Governments have to design and implement the sound growth-oriented and inclusive economic and social policies that have been discussed throughout this report. Governments must keep an eye on corruption and cronyism.

## **Principles and priorities**

There are eight principles and priorities:

1. Focus on building strong transparent institutions-they are what matters.
2. Corruption cannot be left unchecked; else, eventually it will suffocate the foundations of rule-of-law institutions.
3. Devise participatory approaches to policy making and build accountability mechanisms.
4. Designing policies is only half the game, enforcing the rules, i.e. implementation is what matters.
5. Ensure that rule of law applies equally to everybody.
6. Build a civil service based on merit. The civil service is relied on to implement government policies.
7. Realize that a healthy relationship between authorities and citizens is a function of trust.
8. Realize that best practice approaches will not do the trick. Countries have to adapt for 'best fit'.